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TAGS: [ENRG](#) [EPET](#) [PGOV](#) [PINR](#) [PREL](#) [HO](#)  
SUBJECT: HONDURAS JOINS PETRO CARIBE; ANALYZING POTENTIAL  
CONCESSION

REF: A. TEGUCIGALPA 1818  
[1](#)B. TEGUCIGALPA 1798

Classified By: Charge D'Affairs James G. Williard for reasons 1.4 (b) a  
nd (d)

[1](#)1. (C) Summary: The Government of Honduras took a clear step toward securing energy financing from Venezuela by becoming the 17th member of PetroCaribe during the December 20-21 energy conference in Havana. Joining PetroCaribe allows Honduras to engage in discussions toward a possible energy agreement. Following the conference, Venezuelan Energy Minister Raul Ramirez and the Vice President of PDVSA visited Tegucigalpa to discuss the basic outline of a concession. Though specifics remain under discussion, the deal could include delivery of \$750 million worth of bunker and mogas (vehicle fuel) over two years. The GOH would pay cash for 60 percent up front, leaving 40 percent available liquidity to be paid back after 20 years at one percent interest. In a private lunch on December 21, President Zelaya told the Ambassador that he intends to sign a PetroCaribe deal with Venezuelan President Chavez on January 15 in Tegucigalpa, but only if the deal makes economic sense.

In the wake of widespread media speculation about a PetroCaribe deal, Zelaya called Ambassador Ford December 23 with reassurances that a contract had not yet been signed, but explained membership is a necessary step toward a potential concession. Zelaya advised that he would seek a meeting with Deputy Secretary Negroponte in Washington January 7 to discuss the PetroCaribe accord, a meeting which we believe Zelaya might try to use to leverage support in his own congress for a PetroCaribe concession. End Summary.

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Details More Clear but Still Under Discussion  
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[1](#)2. (C) Honduras became the 17th member of Venezuelan-sponsored PetroCaribe December 21 at an energy conference in Havana. The announcement, by Honduran head of delegation Aristides Mejia, Defense Minister and interim director of ENEE, had been anticipated after the GOH began discussing PetroCaribe as one option to stem mounting losses at state-run electrical company ENEE (reftel A). Venezuelan Energy Minister and the Vice President of PDVSA visited Tegucigalpa December 22, where they met with President

Zelaya, GOH officials, and private Honduran energy producers, to commence discussion of the details of a possible PetroCaribe concession. The deal could entail fuel delivery from Venezuela over two years valued at US \$750 million. The fuel would provide 100 percent of bunker (heavy fuel oil) needed to run Honduran electricity generators, valued at US \$300 million, plus 30 percent of needed mogas (automobile fuel, including gas and diesel). Honduras would pay 60 percent up front in cash. The remaining 40 percent would be a source of immediate liquidity for the GOH, which would be paid back 20 years (plus a three year grace period) at one percent interest.

13. (C) During a private December 21 lunch, President Zelaya discussed with Ambassador his plans to sign up to PetroCaribe. Zelaya told the Ambassador an agreement would be based economically on the need to discount the price of fuel and to sustain ENEE, whose losses currently account for up to 3 percent of GDP (reftel B). Zelaya said he intends to sign an agreement with President Chavez on January 15 in Tegucigalpa, but maintained that he has no interest in making a political deal with Chavez. While acknowledging Zelaya's right to reach such an agreement, the Ambassador told Zelaya a PetroCaribe deal would likely be perceived in Washington as a political accommodation with Chavez and reminded Zelaya of President Bush's caution against joining PetroCaribe in June 2006.

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Logistical Problems Remain at Issue  
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14. (C) There are many potential roadblocks to a successful PetroCaribe deal, including the lack of storage facilities and distribution capacity, uncertainty over the quality of Venezuelan crude (reftel A), and a reputation for delays in delivery to other PetroCaribe members. The head of Honduran oil company (DIPSSA), Henry Arevalo said during the December 22 meeting he would be willing to lease the DIPSSA terminals for use by PetroCaribe for the right price, although the cost of storage could significantly decrease the discount that would be gained through PetroCaribe.

15. (C) According to Vice Minister of Finance Hugo Castillo, the thermal generator owners and the head of DIPSSA approached the December 22 meeting with an open mind. They expressed concern to Venezuelan interlocutors over PetroCaribe's poor reputation for delays in delivery and asked how Venezuela would assure the quality of the bunker would be appropriate for Honduran thermal producers. The Venezuelans assured private companies there would be timely and high quality deliveries but did not provide further specifics. However, IMF resrep Mario Garza told econoff the concern over delays in delivery is valid, unless Venezuela increases its capacity. According to Garza, Venezuela is operating near capacity by exporting 135K million barrels of bunker a day to the 16 current PetroCaribe beneficiaries, 93K of which goes to Cuba. GOH officials believe Honduras would receive more than 18K barrels a day, almost half the remaining bunker after Cuba.

16. (C) Executive branch officials publicly disagree over whether the GOH will shoulder the debt burden exclusively, or convince private companies to take on some of the debt. While Zelaya's main legal advisor, Enrique Flores Lanza, insists that the international importers would bear most of the debt, Minister Mejia, the chief negotiator of PetroCaribe membership, insists the debt must be borne completely by the government. Thermal generation magnate Miguel Nasser told econoff the private companies have long term supply contracts and obligations as well as guarantees on machinery that would be adversely affected by a PetroCaribe deal.

17. (C) A specific outline of what the GOH would use the additional money for is not available. Although Zelaya

told Ambassador privately he intends to use the money for social programs, Vice Minister of Finance Hugo Castillo, said PetroCaribe loans must be used for "infrastructure" investment. Others have reported the money would be invested in a hydro-electric dam. However, World Bank rep Dante Mossi explained that a feasibility study alone would require a minimum of three years, and completion of the project would take ten years total. Therefore, a hydro-electric dam is not a feasible solution to ENEE's severe losses, and a PetroCaribe concession is unlikely to cover all the costs.

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Deal or No Deal, ENEE Still Needs Reforms  
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18. (C) The World Bank has told the GOH that PetroCaribe deal would not replace the need to overhaul ENEE and raise electricity tariffs by a minimum of 25 percent. The IMF is also following closely a potential deal, given the current GOH bid to restart its program. IMF has told the GOH it must present a plan to reform electricity tariffs, public wage policy and monetary policy before an assessment mission would negotiate, possibly as early as late January. However, IMF resrep Mario Garza told econoff the IMF cannot discriminate against Honduras solely based on a Petro Caribe deal, as many other countries, including Nicaragua and anglo-phone Caribbean, have programs that include PetroCaribe. If a concession comes to fruition, IMF would look for a deal that would not contribute to fiscal debt, with appropriate safeguards to ensure the loan can be repaid when due, assurances that the additional liquidity would be used for investment and not social spending. Garza underscored that a PetroCaribe concession would not replace the need to reform electricity tariff policy.

19. (C) Congressional deputies in from both parties have told econoffs privately that Congress would not likely approve a deal. Deputy Jose Azcona cautioned it would be very

difficult to put a deal into practice fast enough to affect the 2008 budget, meaning ENEE reform would still have to be addressed in short order. However, President of Congress Micheletti has said publicly Congress would do thorough analysis of a Petro Caribe concession if asked to approve it.

Micheletti publicly stated his opposition to unnecessary government debt and suggested an alternative tax reduction scheme on fuel imports might be a better alternative to a Petro Caribe concession. Influential Catholic Cardinal Rodriguez also publicly voiced his aversion to further government indebtedness.

110. (C)Comment: The decision to join PetroCaribe appears to be a political attempt by President Zelaya to continue subsidizing electricity costs and delay inevitable reforms of ENEE. Post urges caution if Zelaya meets with Deputy Secretary Negroponte or other senior USG officials on the

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margins of the January 7 National Prayer Breakfast in Washington, D.C. Post expects Zelaya would use such a meeting to leverage support for approval by the Honduran Congress regardless of the actual substance of the meeting.  
End Comment.

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